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SUBJECT: ECONOMIC SITREP NO. 25, MONDAY, DECEMBER 6

REF: ROME 19763

1. SUMMARY. PRESS SPELLS OUT THREE THEMES OF PRIMIN ANDREOTTI'S VISIT TO US--FINANCIAL GUARANTEE FROM US, FACILITATION OF IMF NEGOTIATIONS, RESTRUCTURING DEBT WITH PRIVATE BANKS. A FOURTH THEME WILL BE FIRST CONTACTS WITH NEW US ADMINISTRATION. SATURDAY MEETING OF GOVERNMENT WITH UNION CONFEDERATIONS PRODUCED NOTHING CONCRETE OF MAJOR IMPORTANCE BUT DID PROVIDE A LENGTHY AND USEFUL EXCHANGE OF INFORMATION. ANALYSIS AND COMMENTARY ON FIAT-LIBYA DEAL CONTINUES TO OCCUPY CONSIDERABLE SPACE IN MOST DAILIES AS FIAT PRESIDENT AGNELLI OCCUPIED WITH EXPLAINING AGREEMENT (INCLUDING TO ISRAELI EMBASSY) AND ITS MEANING. LIRA STABLE. END SUMMARY

2. ANDREOTTI TRIP TO US. WHILE PRESS ENTRANCED BY PROSPECT OF FIRST MEETING BETWEEN ITALIAN GOVERNMENT AND REPRESENTATIVES OF NEW US ADMINISTRATION, REAL THEME OF TRIP OF PRESENTING ITALY'S ECONOMIC CASE NOT COMPLETELY NEGLECTED. SOME DAILIES HAVE GIVEN LENGTHY OUTLINE OF FINANCIAL THEME OF TRIP WHICH WOULD START WITH ANDREOTTI'S PRESENTATION OF ITALY'S ECONOMIC

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STABILIZATION PROGRAM TO PRESIDENT FORD AND RECEIPT OF EXPLICIT COMMITMENT THAT US READY TO PROVIDE ITALY WITH "SUBSTANTIAL HELP" NECESSARY FOR THE SUCCESS OF THE PLAN. THIS WOULD BE FOLLOWED BY THE UTILIZATION OF SUCH COMMITMENT TO REMOVE LAST BARRIERS FOR (COMPLETING IN JANUARY OF FEBRUARY) INTERNATIONAL MONETARY FUND'S FURTHER LOAN OF ABOUT \$540 MILLION. FINALLY, LEVERAGE GAINED FROM FIRST TWO IN RESTORING ITALY'S CREDIT-WORTHINESS WOULD BE USED TO OBTAIN A "RESTRUCTURING" OF SHORT-TERM DEBT (PRESUMABLY COMMERCIAL BANKS' DEBT) WITH PRIVATE AMERICAN BANKS COMING DUE IN SPRING OF 1977 BY CONVERSION INTO LONG-TERM DEBT. ACCORDING TO PRESS REPORTS, PRIMIN ANDREOTTI CONSIDERS THAT ITALY'S ECONOMIC STABILIZATION PLAN CAN ONLY SUCCEED IF INTERNATIONAL CONFIDENCE IS RESTORED WHICH WILL PERMIT THE LIRA TO REMAIN STABLE WHEN FOREIGN EXCHANGE CONTROLS ARE REMOVED EARLY IN 1977. PURPOSE OF THE PRESENT TRIP IS TO ELUCIDATE MEASURES WHICH ITALY HAS UNDERTAKEN TO STABILIZE ITS ECONOMY AND RECEIVE IN TURN ACKNOWLEDGEMENT OF THOSE EFFORTS SUFFICIENT TO AVERT DESTRUCTIVE SPEUCLATION AGAINST THE LIRA IN THE SPRING.

3. UNION CONFEDERATIONS AND GOVERNMENT MET ON EVE OF ANDREOTTI'S DEPARTURE (ROME 19783). GOVERNMENT ECONOMIC MINISTERS AND PRIME MINISTER MET WITH UNION REPS SATURDAY, DECEMBER 4, IN RESPONSE TO UNION CONFEDERATION REQUEST FOR MEETING TO HEAR GOVERNMENT EXPLANATION OF OVERALL STABILIZATION PLAN AND ITS IMPLICATIONS FOR THE FUTURE. UNIONS WERE CONCERNED TO HAVE GOVERNMENT EXPLAIN WHAT FURTHER REVENUE MEASURES WOULD BE TAKEN IN VIEW OF POSSIBLY LARGE SHORT-FALLS IN FINANCING A NUMBER OF PROGRAMS (HOSPITAL DEBT, LOCAL GOVERNMENT FINANCING, PENSION EXPENDITURES, ETC.) MARATHON (LASTING NEARLY 9 HOURS) MEETING NOTABLE FOR RANGE AND DETAIL OF INFORMATION PROVIDED BY GOVERNMENT ON NUMBER OF SPECIFIC QUESTIONS RAISED (AND SENT EARLIER) BY UNIONS. HOWEVER, APART FROM AGREEMENT ON PART OF GOVERNMENT TO "UNBLOCK" CONTRACT NEGOTIATIONS WITH PUBLIC EMPLOYEES AND ARRIVE AT NEW THREE-YEAR (1976-1979) CONTRACT BEFORE END OF CURRENT YEAR, MEETING PRODUCED NO CONCRETE RESULTS OTHER THAN AN AGREEMENT TO MEET AGAIN ON DECEMBER 15. AT THAT MEETING, SEVERAL QUESTIONS ASKED BY UNIONS (SPECIFIC INVESTMENT PLANS WHICH WILL PROVIDE NEW EMPLOYMENT OPPORTUNITIES, REVENUE SOURCES FOR SOLUTION TO LOCAL GOVERNMENT DEBT, ETC.) ARE TO BE EXPLAINED LIMITED OFFICIAL USE

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FURTHER BY THE GOVERNMENT. UNION CONFEDERATION DIRECTORATE IS SCHEDULED FOR ASSESSMENT MEETING DECEMBER 9-10 AND NEGOTIATIONS WITH CONFINDUSTRIA ARE TO RESUME DECEMBER 13. QUESTION NOW IS THAT AFTER ALL THE EXPLORATORY TALKS, WHO WILL MAKE THE FIRST MOVE, BEARING IN MIND THAT UNIONS ARE IN UNENVIABLE SITUATION OF BEING ONLY ONES WITH ANYTHING TO OFFER.

4. FIAT-LIBYA DEAL (ROME 19773). FIAT'S AGREEMENT WITH LIBYA INCREASING ITS CAPITAL STOCK BY 10 PERCENT AND PROVIDING \$415 MILLION IN NEW FINANCING STILL OCCUPIES FAIR SHARE OF NEWS AND PRESS ANALYSIS. TONE OF STORIES IS STILL TINGED WITH ADMIRATION AS STORIES FOLLOW FIAT PRESIDENT AGNELLI ON ROUNDS (ON TELEVISION, TO ISRAELI AMBASSADOR) EXPLAINING THAT AGREEMENT IS PURELY ECONOMIC/FINANCIAL AND COMPLETELY APOLITICAL. PRESS ALSO HIGHLIGHTS LIBYAN COMMUNIQUE WHICH EMPHASIZES THAT AGREEMENT PROVIDES DIVERSIFICATION OF INVESTMENT FOR LIBYA, ESPECIALLY TOWARDS WEST, WHERE LIBYA HAD WANTED TO INCREASE ITS TIES.

5. MONEY MARKETS. DECEMBER 6 LIRA/DOLLAR RATE UNCHANGED AT 865.40 AGAINST 865.45 ON PRECEDING FRIDAY, IN VERY QUIET MARKET. BEAUDRY

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